Metaeconomics: A Not-for-Profit World

Excerpt from unfinished Paper 6 of

The Global Family Papers

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> There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one man in a million can diagnose.

John Maynard Keynes,
The Economic Consequences of the Peace

> The monetary system is evolving before our very eyes.

Addison Wiggin,
The Demise of the Dollar

A New Economic Paradigm

Paper 3 introduced a new scientific paradigm, and papers 4 and 5 a new religious paradigm. This paper will propose a way of looking at economic theory and practice so radical as to constitute a new economic paradigm. In keeping with all that has previously been said about the nature of paradigm change, it will challenge the very foundations of economic science and will doubtless seem at first absurd or at the very least hopelessly impractical. A new paradigm in any field involves radical change in the most literal sense: it goes down to roots which are often so deep as to be either unnoticed or taken to be unquestionable. In extreme cases it presents a psychological challenge because, if it not countered by a kneejerk rejection, honest consideration of it calls for a shift in perception and cognition that that is literally traumatic. That is to say, once understood and accepted, it changes the habitual consciousness of the individual and, in due course, that of the social group. The proposal of a new paradigm will send the majority of people back to finding reasons to stay within the comfort and familiarity of the old.

Few are prepared to consider even the possibility of a new order of things until the terminal inadequacy of the accepted order has become too obvious to ignore, and once that initial breakthrough has been achieved, one must begin with replacing one act of faith with another and then mapping all the consequences and categories of the old system one by one into a new pattern of understanding. The Copernican revolution is a very clear example of this process, for it began with simple rejection of belief that the earth was at the centre of the universe and continued with the reform of the whole of astronomical science. In social matters, the birth of a new paradigm begins similarly with the rejection of a single principle, previously unquestioned, and its replacement by another principle, creating a change in perception which slowly ripples out like a wave, creating change in every social institution. The abolition of slavery, which has earlier been proposed as such a paradigm change, began with the simple conviction - **this is not right** – but this set in train complex social decisions, not least the American Civil War in which 600,000 ? sacrificed their lives.

The principle at the heart of a new economic paradigm is perhaps not so stark, nor quite so simple: the point of decision from which all else will follow is the realisation that **to organise a society in pursuit of profit or in exploiting others for profit is wrong.** From this conviction it follows that we cannot become fully human if that is the major goal in our life, nor can we build a fully human community that is driven by the desire for profit. The simple logic of this commonsense conclusion is obscured because we live in a profit-making culture and most of us can only survive by working within its structures. The first objection will be, how can a business survive without making a profit? Close on its heels will be the equally obvious point made some twenty five years ago by Margaret Thatcher, addressing the Assembly of the Church of Scotland, how could the good Samaritan have helped his fellow man if he had not devoted himself previously to making the money that he was now giving away? These are hard questions, but they do have answers.

The science of economics came into existence with the publication in 1773 of the Scottish philosopher Adam Smith's seminal work, usually known by its short title as *The Wealth of Nations*. It is not without significance that he considered slavery as a regrettable but essential part of a part of an economic system – "It has been universall in the beginning of society, and the love of dominion and authority over others will probably make it perpetuall." So that particular element of his theory at least was obviously quite false, as time has proved. What now will come under question are the concepts of wealth and nation, which he took to be pillars of an science of economics. This paper will argue that if human happiness and progress are to be the goal of economic activity, the nature of wealth and the assumption that the nation state is the primary generator of wealth must be critically re-examined. To justify raising these questions, one need only point to the now accepted facts that wealth creation in its rawest form is degrading the planet, depreciating its natural resources to zero and taking its basic biological systems towards breakdown, while at the same time the control over economic decisions that Adam Smith assumed was in the hands of the nation has been wrested from it by a new form of human group, the transnational company. Who now is in charge of our planet? This paper, which is dedicated to building up a global family, will show how globalization is coming about in a perverse form as the transnationals systematically break down national barriers in pursuit of corporate profit.

The argument presented here is that economic science is fatally flawed in taking profit and growth to be the twin purposes of economic activity, and in having no theory of money to underpin a sustainable global or national system. In so doing it will question the whole system of fractional reserve banking, by means of which money can be created at will by those who are legally licensed to do so. These are not academic questions, but critically affect all who have savings or look forward to pensionable retirement. In this regard, the paper continues where an earlier essay, "The End of Economics" [1] left off. It may also be approached as a follow-on from Fritz Schumacher's trail-blazing work of 1973, *Small is Beautiful*, but is far more radical in intent, for while his subtitle *A Study of Economics as if People Mattered* indicates a common concern with the present theme, his assumption that the present system could be made more human by scaling down the profit-making units is at odds with the present theme. The argument here is that the very concept of profit needs to be displaced as the central hinge of theory and driving force of economic practice.

The greater part of this paper will be devoted to showing that while a profit-based system is essential at a particular stage of social evolution, it is ultimately self-contradictory and dehumanizing. If this is reasonably proved, the inescapable conclusion must be that the world needs a new kind of economics, not based on the desire for maximum profit or structured into social units dedicated to that purpose. Only after that has been demonstrated will the need for a new paradigm appear reasonable. The thrust of the argument is that the present economic paradigm is unsustainable and is now being tested to destruction against the realities of the global market place, and that being so, we should start thinking about what is to follow and what kind of humanized and sustainable system is possible. The present paper takes the argument for a global family forward by demonstrating the need for non-profit-making associations as an essential element of a new microstructure. This is not to deny that the profit motive has played an essential part in taking civilization to where it now is, nor that its usefulness has suddenly ended, but if the current phase of social evolution is coming to an end, as the present economic order collapses around us, some radically new kind of thinking will be imperative. A not-for-profit world will seem hopelessly idealistic when considered within the present paradigm, but to deny that it is possible is to reveal ignorance of economic history. There have been, and indeed still are, many societies which have not been motivated by profit. What is held out here is the possibility of applying the not-for-profit principle systematically, first on a small scale and eventually on the largest possible scale. The fact that the latter may be centuries into the future does not contradict the essential principle that making profit for the sake of profit is both socially destructive and humanly demeaning.

These are issues not of economics as normally understood but of metaeconomics, which is, strictly speaking, a branch of philosophy, and the this presents an initial difficulty, in that the word itself has two quite distinct, indeed almost opposite, connotations. *Metaeconomics* was coined by the Austrian Karl Menger in 1936 to indicate the need to give the science of economics a more disciplined mathematical basis. Like all the soft sciences, it was affected by what has been called "physics envy", and strove to reduce its data to ever more precise quantities and construct ever more sophisticated equations, so much so that economic wisdom became almost synonymous with mathematical obscurity. In the search for predictability, and thus control over economic variables, the human being had to be treated as a replaceable cipher, to be inserted into the equation at the appropriate places. *Homo economicus*, as this mathematical cipher was called, was taken to be an item which reacted mechanically to financial stimuli, buying less, for example, if the price of goods or services went down and more if they went up. *Homo economicus* never acted irrationally or impulsively, or had any altruistic, let alone spiritual aspirations. He or she was a genderless abstraction, essentially a consumer and cog in an economic machine designed to produce increasing amounts of "goods". The economic machine functioned perfectly when it created "growth", but as we slowly become aware that unrestrained growth is destroying the planet, we are also discovering that no one knows how to switch off the machine. There is something dreadfully wrong with economic theory and practice, and we must find out what is wrong, and how it got that way, before we can hope to put it right. The problem is vast and urgent, and time is not on our side.

To give a conclusive demonstration of the inadequacies of the present paradigm is the main purpose of this paper, and little can be said in detail about a proposed replacement. All that may reasonably be attempted in a short paper is to persuade the reader to learn more about the topics which are raised here and do their own imaginative thinking. While references in the text have been kept to a minimum in order keep the narrative flow, a short list of selected items for further reading has been appended. What ideally is needed, however, are specially written pieces to amplify the present bare bones argument, for there is no dedicated material on a new paradigm of the kind presented here. Such pieces would take their place in what the keynote paper called the "C Zone," and it is perhaps worthwhile to repeat what was said their about its function and purpose. We live now in a world with such an oversupply of information and such a shortage of time to select the important parts and reflect upon them in depth that a new approach to learning is required. We cannot waste time in becoming experts in current economics in order to understand that we must now move out of an outworn socio-economic system before its wreckage falls on our heads. Instead, we need to have the salient points spotlighted for our attention and we need communication in the visual arts to add depth and plausibility to the condensed version presented here. That must be a task for the future: the present paper can only hope to stir up initial awareness that a new kind of economic world is now not only necessary but possible. We must be prepared to examine the most unquestionable and invisible assumptions of the present system, for it is these which have brought the world to its present unjust, inefficient and ecologically destructive state. It would be madness to try to rebuild on the old foundations.

Global Economic Currents

As the new millennium gets under way, we are witnessing the last phase of a historically unique era in economics when five great trends are reaching the end of their development and converging. As the point of convergence nears, one can predict global economic breakdown and the end of all conventional theories and most structures. At the same time, since economic and politics are always connected, we can anticipate geopolitical instability, as a balance is sought between the demands of America, the world's superpower, and those of the two emerging powers of China and Russia. One may hope that conflict of interest on this scale does not lead to a third world war. In any event, it is likely that conflict will be not between the three great supernations but between geopolitical blocs which share their economic interests. A new era in social evolution will open up as this process gets under way, for whereas economics has always concerned the wealth of nations, national boundaries will be obscured by global forces at work. Paper B7, "Beyond the Nation State", will deal in more detail with the large scale political consequences of the economic events now unfolding but not widely understood, even among professionals.

What have been called five deep currents may also be seen as five experiments in which aspects of conventional economics are being tested to their limit, and we have enough data to predict with confidence that further development will push them beyond their limits, taking the world and its people into uncharted socio-economic territory. Whether viewed as currents carrying the world into a new future or as experimentation in the limits of classical theory, the five phenomena in question are, in order of their entry into global economics, (1) the transnational business corporation, (2) privatisation, (3) the use of the American dollar as a global currency, (4) the rise of China as a "workshop of the world" - a term applied in the nineteenth century to Britain - and, (5) the very recent emergence of Russia as an energy superpower, able to dictate global events because it controls so much of the world's oil and gas resources.

To give a more rounded picture, this list should include the demographic distortion, as noted in Paper B1, which is slowly starting to affect many aspects of economics. Indeed, from one valid perspective, it would be true to say that global population increase is the single problem that underlies all others, and until we have solved it, no long term economic solution is possible. However, the interconnection between the five factors to be dealt with here with is complicated enough, and while the demographic forces will affect the conclusions, they have been omitted in the interest of simplification. All that will be noted is two aspects that will certainly add to the economic chaos now inexorably building up. The first is that in the West, and for the first time in history, the balance between the retired and the employed is tipping, and before long there will not be enough workers to produce the extra taxation that will be needed to pay for pensions. This will then create a vicious spiral, for as pensioners have less disposable income to buy the goods that the working population must produce in order to have jobs, there will be increasing and permanent depression in all economies. The second aspect of the demographic revolution concerns the fact that even without this economically depressive factor, mass production techniques coupled to ever more ingenious machines have created unemployment faster than new jobs can be created. As a very rough marker, where a third of the population in the West was engaged in agriculture a hundred and fifty years ago, it is now typically two or three per cent. When this phenomenon is multiplied across the economic spectrum – for instance, the baker who can now produce ten thousand loaves of bread a day with a machine, the shoemaker who can produce a thousand pairs of shoes – it can be seen that structural (i.e., permanent) unemployment must continue to grow worldwide. These impressionistic comments must suffice to indicate at least that population increase is an economic problem of the first order, even though it will not be treated here. This paper is essentially about the breakdown in the concept of money, which is losing its traditional functions. It hardly needs to be said that if money ceases to function as (1) a medium of exchange, (2) a fixed measure of value, and (3) a store of value, economic science itself will need to be refounded on different principles.

The first of the deep currents now moving global economics is the very rapid growth of the transnational business corporation, sometimes inaccurately called multinational. The TNC, which now dominates world trade, sets the conditions very often for national trade and even national politics, and represents a new kind of human grouping. To the extent that globalization of trade has become a reality, it is the TNC which is the driving force, for its sees national boundaries as there to be demolished in pursuit of profit. The TNC may be seen as the antithesis of the global family which these papers are promoting, since its sole purpose is profit.

The second current is privatisation, that is, the transfer by national governments of state-owned assets to profit-making companies, whose shares are sold to individuals and to other companies worldwide. More than anything else, this has consolidated the process of globalization. Who ultimately benefits from privatization is a question that classical economics does not ask. When individuals are invited to buy a share in community enterprises that they previously owned, or otherwise excluded from its benefits, the question of state theft arises, and deeper issues still about the nature of the state and about party political democracy.

The third deep current, which may be labelled “The Dollar Hegemony” deserves a large book to itself, for it impacts on every aspect of global economics. It is equally referred to as “The American Hegemony”, and concerns the deliberate attempt by the United States to achieve world dominance using its national currency as a main instrument. As things now are, and have been for fifty years, the use of the US dollar as a global reserve currency and a petro-currency has enabled America in effect to silently tax everyone in the world and use the tribute thus exacted to build up a military machine. Thus has emerged a self-reinforcing process, for American military might operates to defend American global interests and the dollar hegemony which finances its huge and ongoing costs. From a social point of view the American hegemony is in conflict with the global family because it expresses the extreme development of tribal consciousness. From a purely economic point of view, it can be seen as an experiment which is now drawing to a close. For reasons to be amplified, the impending collapse of the dollar will bring down the global trade system. It illustrates what must ultimately happen when money is defined as credit, without assets to back it, since the dollars that the American government has printed in vast amounts to pay for its imports, its internal commitments and military forces are no more than IOU’s. No longer backed by gold, their value rests only on “full faith and credit” in a government which is now too deep in debt ever to fully redeem them. What happens to the global economic system when it rejects the American dollar as a reliable standard of value and universal medium of exchange?

The fourth current, closely related to the second, concerns the rise of China as an industrial power over the past twenty five years. This has been achieved by using a virtually unlimited pool of unemployed to manufacture goods at prices that can rarely be matched in the West. Given the totalitarian nature of Chinese politics, this constitutes an experiment in hybrid state capitalism but also in global trade, for we do not know what will, or can, happen when one nation’s goods are priced so cheaply as to destroy competition. The wealth that is so rapidly being created by “China incorporated” has already wiped out large parts of the manufacturing economy of many Western nations, and is laying the base for a Chinese hegemony with ominous geopolitical consequences.

The fifth current has emerged very recently, with the election of Vladimir Putin as president of Russia, and a reversal of the privatisation of national resources that had happened under his predecessor Boris Yeltsin. This is of global significance because Russia holds about a quarter of the world’s diminishing supplies of oil and gas, and probably more than a half of the world's uranium, which is set to replace them as the main source of generating electricity. The political potential of this economic power has already been demonstrated by blackmailing the Ukraine into closer integration with Russia by threatening to cut off its gas supplies, and there are ominous signs that this kind of political pressure will increase. An already announced plan to price its oil and gas in roubles will have potentially devastating effects on the value of the dollar an on American political influence, and lead towards a Russian and rouble hegemony on a scale to rival America and China. It is, in fact, hard to envisage a different scenario, resulting within the next ten or fifteen years in a tripolar world of geopolitics. The resurgence of Russian global power arises from the fact that American energy resources are dwindling rapidly, and China has relatively few to begin with, and the experiment of Russian control of energy now unfolding may develop in several possible ways. All of them will drastically reduce the American global hegemony, all carry the threat of war and all have negative implications for the evolutionary drive towards a global family.

Together these five currents are converging towards an economic breakdown that will be a replay on a greater scale of the "Great Crash of 1929", when the New York stock market plunged, from a peak of 381 to an ultimate low of 85 three years later and one third of all the banks in America were wiped out, leaving millions of savers destitute. The Great Crash triggered a worldwide depression, with massive unemployment and human suffering in every country in the world. It ended only when World War II created demand for millions of combatants and revived economic demand by demand for armaments. There are ominous signs that war will be sought again as a solution to economic problems, especially the worlds' growing energy needs, but this time the combatants will have nuclear weapons.

Inevitably, there will be objections that such a scenario is too extreme, but the forces now at work are so great that anything less apocalyptic would be wishful thinking rather than realism. The first part of this paper will be devoted to the five economic forces now driving the global economy and showing how they constitute, both individually and together a destruction test of the current economic paradigm. What then must emerge, like the shrew after the dinosaur, will be economic survival units in world largely characterized on the larger scale by warlordism. These microstructures are likely to take a variety of forms but they will include the basic communities that will form the cells of a global family.

Before dealing in more detail with the five developments just listed, a detour must be made to provide some background in economic theory. It must necessarily be selective, but it will help to confirm the main argument that old remedies will not solve the economic problems facing the world, and that a new approach, based on an economics of mutual help, rather than on mutual exploitation for profit, is now needed. From all the mass of economic history that confront the analyst, two particular points will be examined, the first being why Keynesian theory, which is still the battered core of theoretical orthodoxy, is inadequate to the world's needs. The second economist to be selected, more a philosopher than a theorist, is Fritz Schumacher, whose concept of the small business unit was proposed as an answer to the dehumanizing effects of "big economics", but which will be shown to be wholly inadequate to the challenge now facing the world.

The Legacy of Keynes

When John Maynard Keynes published *The General Theory of Employment, Interest and Money*, in 1936, a new era in economics opened up. The title itself indicated the new emphases, for the great problem of the day worldwide was massive unemployment brought on by the stock market crash of 1929. Keynes' answer was simplicity itself; he argued that national governments should not aim for balanced annual budgets, but should manipulate the money supply by going into debt when recession threatened and waiting for better times, when the debt could be repaid from increasing tax revenue. This way, he theorized, the government could create better times, rather than waiting for them. In a world groaning under industrial depression Keynes' theory offered to keep employment at an optimum level, somewhat as a thermostat functions to keep the temperature of a house within a band of comfort. If the theory could be shown to work on a national scale, it seemed logical to suppose that it would work globally if all nations cooperated in saving during the good times and spending national reserves to avoid recession. Keynes was particularly critical of the age-old practice of requiring national currencies to be backed by gold, for not only did it restrict the creation of money when growing demand seemed to call for it, the very fact of mining a metal and then storing it in vaults as security for paper money seemed ridiculously old fashioned – "a barbarous relic", in his famous phrase. Like most big new ideas, it took some years for Keynes' logic to convince the doubters, who, like good housekeepers, wanted balanced budgets every year, but thirty years later President Nixon was to endorse it in his famous statement, "We are all Keynesians now." The unanswered question – indeed, the unasked question – was what period of time was now optimal for balancing the national budget? How many years could an economic system continue in deficit and still function? The answer to that question is now emerging after an economic experiment on a global scale that has lasted for some thirty years, and it is as unexpected as it is alarming.

Keynes was instinctively a twentieth century globalist in economics, but he could not have anticipated what would happen when an economic system was built on a global reserve currency without the backing of gold. Far-sighted as his theory seemed at the time, it now reveals several fatal blindspots, each demonstrating the destructive effects of institutions which have continued to evolve beyond a natural size and become, in effect, cancers on the world economic body. When Keynes' was writing, the manufacturing company was the normal model, and while many were of great size and with international branches, their shares were largely owned by individuals and the companies were considered answerable to shareholders. Today that simple text book model has changed out of recognition: well over eight per cent of shares in major companies are owned by pension funds and insurance companies, and the main business of the great conglomerates has become not manufacturing but the buying and selling of smaller companies. The hedge fund represents an even more bizarre development, turning big business into what has been called a global casino, where bets in billions of pounds are made on the movement of national interest rates, the price of gold, oil and other commodities. The magnitude of the sums which hedge funds manipulate globally can influence national economies and government decisions. To cite a well known example, in 1992 George Soros's hedge fund made over a billion dollars in a week or two by betting against the British currency, earning him the soubriquet of "the man who broke the Bank of England". As a consequence of his and other hedge funds' currency speculation, the British taxpayer will have to find about five billion pounds in new taxes to make up the national loss. The financial power of hedge funds dwarfs almost all business corporations, and the rewards of their directors are commensurate. In 2005 the chief executives of the top twenty three earned an average of £325 billion in salary and the two highest paid earned a mind-boggling billion dollars – or twenty million dollars each week. (Simons of Renaissance Technologies and Pickens of BP Capital Management. Cf. "Financial Times" 26/5/06). The companies which rewarded them so handsomely provided not so much as a matchstick for the world economy: their business is essentially betting on the movement of stock and bond prices and currency values. Where the punter at the racecourse might stake £5, a hedge fund will typically state fifty million pounds. Keynes could hardly have dreamed of this.

Fritz Schumacher – A Halfway House

In 1973 came a dramatic reaction to the assumptions of a faceless, profit-driven economics with the publication of E. F. Schumacher's *Small is Beautiful: A Study of Economics as though People Mattered*. This short work, reprinted several times, has served as a bible for those many people who saw with dismay a world being dehumanized by big business. The subtitle, "as though people mattered," indicates that it is a work on metaeconomics, as its author specifically states, and he explicitly states that "the study of economics is too narrow and too fragmented to lead to valid insight, unless accompanied by meta-economics." It is a ground-breaking book, to which the present work acknowledges its debt even as it seeks to go beyond it. Schumacher is by no means an un-spiritual humanist in his approach to economics – one of his chapters is entitled "Buddhist Economics", and he calls for recognition by economists that there is a "qualitative difference between mindless atoms and men made in the image of God." He did not, however recognize, as does this paper, the need for an evolutionary step-change in the species as the only way to constructing a humanizing economic system. While he is writing against a traditional economic system which is, "propelled by a frenzy of greed," he seems to miss the vital point that optimizing profit is a euphemism for greed, and the logical corollary, that the only alternative to an economics of greed is a non-profit-making economics. To be fair, he foresaw a distant future where profit-making would not be the engine that drove economic activity, but he did not define this happy state. He quoted Keynes, who also hoped wistfully for a future when humankind would emerge "out of the tunnel of economic necessity into daylight," but, like Keynes, accepted that until then "avarice, usury and precaution must be our gods." The present argument is quite clear: we can wait no longer to overthrow those gods, a start must be made before they destroy us, their worshippers.

The keynote paper in this series introduced the idea of a new social microstructure as a community in which economic activity went hand in hand with spiritual and educational goals. Schumacher came at the question of microstructures from a quite different direction, seeking to downsize and reform what already exists rather than change its foundations His final, very short, chapter, "New Patterns of Ownership" is pretty much a restatement of Ernest Bader's micro-economic principles, which sought "a maximum sense of freedom, happiness and human dignity … *without loss of profitability.*" [emphasis added]. This brief quotation does not do justice to the range and richness of Schumacher's thought, but is included to illustrate his acceptance of most of the foundations of conventional economics. He assumes, for instance, the normality of the joint stock company, whose sole principle is making profit for the shareholders, but, like Bader, overlooked the illogicality of making employees shareholders, for in so doing they are really seeking only to protect their interests in a larger exploitative system while leaving the system itself intact. Schumacher's revolutionary ideas pushed the existing economic system toward its humanitarian limits, whereas the present argument is that an economic system operated "as though people mattered" must go beyond those limits. The world has tried socialism as an alternative to profit-making, but the failure of all socialistic experiments, especially that of Soviet Russia, now rules that out as an answer. Some thing new and radical must be considered and put into practice. Cooperative experiments have succeeded on a small scale and for a limited time; what now seems to be called for is a form cooperative economics with some new component.

Economics and profit are so inseparably linked that a not-for-profit system will seem not only alien but self-contradictory. In this context it is worth recalling that *by its nature* a new paradigm in any area must at first seem absurd because it rejects what is normal. As Schopenhauer said, long before the concept of paradigm had taken shape, "All truth passes through three stages: first, it is ridiculed; secondly, it is violently opposed; and third, it is accepted as self-evident." Initial rejection may be expected to appear quite violently in the case of radical economic change, for as well as resistance to the unfamiliar, there is personal wealth and political power at stake. The nature of the vested interest will appear as the topic is pursued, but in anticipation it can be said that a new kind of global fascism is now emerging. Fascism is not always an easy concept to define but, as envisaged by Mussolini and later by Hitler, it involved a collusive partnership in which the interests of a totalitarian state and big business were joined, each promoting the other and protecting it.

Global Economics and the American Hegemony

The average person is well aware of the way in which America dominates world affairs, but tends to assume in an unthinking way that it is a consequence of American industrial power and inventiveness. America has been at the forefront of innovation for a long time, and the periodic appearance on our television screens of space missions reinforces unconsciously the idea of America at the frontier and leading the nations of the world. Only since the inauguration of George W Bush as president has public doubt about American intentions emerged, most notably after the invasion of Iraq under false pretences, though there is a ground swell of suspicion growing that the American administration was complicit in at least some part of the 9/11 tragedy. The story of America's bid for world dominance has a long history, and began with nothing more sinister than this young and energetic nation taking its natural place among the world powers. Emerging as the world's strongest nation after World War II and the only apparent defence against a communist ideology that threatened to take over the world, American political leadership was willingly conceded by the cultural bloc we call "the West" –even though it includes countries like Australia and Japan. Ostensibly a new world order was born with the founding of the United Nations, but the real world order since World War II has been American foreign policy, and the fact that the UN is headquartered in New York is evidence that America is at least "first among equals". So long as Soviet Russia was seen to be a second superpower, the UN was useful to America as a forum for mobilizing anti-communist forces, but when Russia collapsed and the Berlin Wall came down in 1989, international communism no longer presented a threat, and the old balance of power was changed.

In 1990 there was published a remarkable report by a self-styled neoconservative think-tank, Project for the New American Century, established in 1997 with the goal of promoting "American global leadership." It was produced for Dick Cheney, Donald Rumsfeld, Paul Wolfowitz, Lewis Libby and Jeb Bush (the brother of the future president) and was entitled "Rebuilding America's Defences: Strategy, Forces and Resources for a New Century." It was remarkable in several ways, but essentially because it proposed, as a core principle of government policy, taking advantage of the political vacuum left by Russia's collapse to impose American domination of the world by military force. Among its recommendations was the development of "new forms of attack … that may transform biological warfare from the realm of terror to a politically useful tool." That its prime movers are now all in the top positions of political power must be a cause for deepest concern, not only for the danger to the world they represent but because it signals wholesale corruption of American democracy and, it may be added, of British democracy too, through the active collaboration of the British prime minister in this conspiracy. In both instances we are seeing the emergence of what Lord Hailsham called "electoral dictatorship." Whether or not the neocon agenda can be called a conspiracy when its aims are so open is a question worth exploring, for it sends alarming signals that political checks and balances are no longer working and that the voting public has no interest in making them work. "Rebuilding America's Defences" was later described by Tom Dalyell, in the Sept. 15th, 2002 issue of the *Sunday Herald*, as written by "men who are in love with the idea of war" and "a blueprint for US world domination – a new world order of their making." The report has been freely available on the Web for fifteen years, and in the meantime George Bush has become president, Dick Cheney vice-president, Donald Rumsfeld secretary of state for defence, and John Bolton the US representative to the United Nations, at Bush's insistence and *by vote of congress.* The last phrase is emphasized, because those voting knew full well of Bolton's often expressed with to do away with the United Nations.

Although, as the earlier quotation from Reginald McKenna has illustrated, politics and economics are inseparably connected, an attempt must be made here to disconnect them at this point and leave the paragraph above only as background for what follows. It is important to concentrate attention only on the economic, in order keep the thrust of this paper clearly in view, that the world now needs a new economic paradigm based on the social principle of non-profit making structures. That this principle overlaps with spiritual values must not prejudice its economic validity. A new spiritually-based paradigm is needed because the old materialistic system is breaking down.

Three economic threads will be drawn together in this section, each of which is of such significance that it will be dealt with separately under a subheading. The threads whose developments have been woven together to create the present global crisis are all concerned with money in one way or another, with its nature, the destruction of normal economic function or the political power that money gives to institutions other than elected governments. The three subsections deal respectively with the deliberate inflation of the dollar as American government policy, the adoption of the dollar as a global currency and its abuse by America and the manipulation of the International Monetary Fund to create a new form of colonialism. Each of these interlocking themes is vast, and ideally much extra information and qualifications would be called for, but despite the selectiveness that must be exercised, it has seemed worthwhile to present them in summary form because they are so little understood and so important in gauging the need for radical reform. The third subsection. "The IMF and a New World Order" is probably the most important, for it illustrates how giant corporations are now taking over control of world events from national governments. In the single-minded pursuit of profit they are seizing the world's resources from governments, without regard for the future of the planet or the welfare of its people.

(a) The Fed and Inflation as a Political Strategy

The story of America's bid for world dominance, using the dollar as its principle weapon can be traced through the deliberate actions of four presidents – Woodrow Wilson, Franklin Delano Roosevelt, Richard Nixon and George W Bush. Their actions were either unconstitutional, or immoral or a breach of faith, and sometimes all three. The first, and most decisive, was the setting up of the Federal Reserve Bank of the United States in 1913, an institution which controls the national (and now effectively the global) money supply. While almost all Americans assume that this is an arm of government and under the ultimate control of Congress, this is emphatically not so. It is a private company registered in the State of Delaware, with the major shareholders being the large New York City banks, which in turn are owned by other banks, many of them not American. It is not clear how far the Fed, as it is usually called, was set up with good intentions, "to supplant the dictatorship of the private banking institutions [and] stabilize the inflexibility of bank note supplies", for it has become itself an instrument of state dictatorship and, far from stabilizing the inflexible (whatever that might mean), it has expanded the money supply over its 93 years of existence, causing a depreciation of the dollar to four cents of its original values, as measured by the Consumer Price Index, about which more below. It has been suggested that President Wilson agreed to the original proposal by private banks to create the Fed because of the financial assistance the sponsoring banks were willing to offer in his forthcoming re-election campaign. No conspiracy theory is needed in explanation, however, for once in existence, the Fed put enormous new power in the hands of the president and Congress by virtue of its ability to create money at a stroke with minimal restrictions. Its creation was passed by Congressional vote, despite the fact that it is totally unconstitutional, for Article

1, Section 8 of the United States Constitution reserves the power of creating money to Congress alone, and money is defined specifically as gold or silver.

The most significant aspect of the new institution is that its purpose was precisely to create money like any other bank with only partial asset backing. This fractional reserve banking is at the heart of modern economic theory and the reason why banking licences are so difficult to obtain, for they are quite literally a licence to print money. The Fed's method of operation is to make loans to the American government, with Congress setting a limit to the borrowing powers of the administration. The borrowed money is then lent on by the government as treasury bonds, with the American people ultimately responsible for paying the interest on them and redeeming them in due course, using money raised through taxes. The dollar bills issued by the Treasury come at the cost of the paper and are, of course, not redeemable. Government bonds, which cost effectively nothing, are purchased by individuals and nations as a secure investment, and form the major part of most countries' national reserves - effectively the country's savings. Hundreds of billions of American dollars are in circulation around the world, and in many countries are used as an alternative currency because they are sounder than the national currency. It is interesting, however, that in President Putin's state of the nation address in May 2006, he declared the government's intention of replacing Russia's dollar reserves with roubles and gold, because the dollar was now too weak to justify international confidence. What would happen if the rouble, gaining in strength, were to become a joint world reserve currency along with a depreciating dollar is an interesting speculation.

Whatever may have been the good intentions of President Wilson in 1913, the main role of the Fed has been to print the money required by successive presidents to wage war. Prior to its creation, President James Madison increased the national debt by $70 million to fund the War of 1812, and it was paid down in twenty years through taxation. During the Civil War in 1861 the national debt exploded to thee billion dollars ($3,000 million) and most of this remained as debt until America entered the First World War, whereupon it exploded again, this time to over $26 billion. On the plus side, America made a great deal of money from selling arms and material to the other combatant nations, for which it was paid largely in gold. This marks the start of the American hegemony, for Britain, which had been the world's great power for a century was bled by the war of its human and financial resources, and mortgaged and lost its empire. America was not slow to realize there was a global power vacuum to be filled.

One positive benefit of the Fed was the way in which Franklin Roosevelt used it to print money, and government debt, to alleviate the worst effects of the post 1929 depression. These fresh supplies of money funded the so-called New Deal, which put masses of the unemployed to work creating industrial infrastructure, such as roads and hydroelectric dams. Roosevelt's importance in the modern history of money rests, however, on another action, which was doubtfully constitutional and certainly infringed the spirit of a free society. In 1933 by presidential executive order he confiscated all the gold held by private citizens, "prohibiting the hoarding of gold coin, gold bullion and gold certificates within the continental United States." Whoever failed to turn in their gold to the nearest bank, in exchange for dollar bills, "may be fined not more than $10,000 or imprisoned for not more than ten years or both." The seriousness of the crime may be judged by the length of possible imprisonment, and the newly invented crime was essentially any action which would prevent the state from printing money at will. For having collected all (or most) of the private gold in the country at the official exchange rate of $20.67 an ounce, the government revalued it a year later at $35 an ounce, thus at a stroke increasing its financial reserves by sixty per cent. This was, in the words of economic commentator James Turk, "theft, pure and simple, but the magnitude of the crime was lost in the cacophony of the Depression." The law against possessing gold was repealed in 1974, when a new world financial order was in place.

(b) Bretton Woods and the Debauching of the Dollar

The next act in the unfolding drama of American global domination began with the Bretton Woods Conference in 1944, convened by Roosevelt in anticipation of an end to World War II and the need for a global economic system. With most nations in financial disarray, it was inevitable that American set the agenda. Two global economic designs were put forward, differing largely in the way that a world reserve currency was to be defined and managed. John Maynard Keynes', fearing American dominance, proposed an international currency whose value was to be based not on gold or silver, the traditional backing of paper currency, but on a basket of national currencies. By contrast, his opposite number Harry Dexter White stood out for using the American dollar backed by gold as a world reserve currency. By then America had accumulated in the national vaults nearly two thirds of all the government held gold in the world, and was in a position to make such a guarantee. Furthermore, there was no doubt that the nations of the world, wearied by war and grateful to America for the role it had played were very willing to accept this situation. It seemed, in fact, like an offer too good to be refused, for America promised to redeem dollars, when presented by other governments, for the agreed amount of gold.

The other historical achievements of the Bretton Woods Agreement were the founding of the World Bank and the International Monetary Fund, capitalized by the world's major nations, but mostly by America, with the express intention of helping countries in need with emergency loans. The way in which these two institutions, which started off with such high ideals, have been corrupted to serve the global ambitions of America and the interests of big business will be dealt with below. The more important point in the story of dollar diplomacy is that America, once in charge of the new global currency, started to print dollars in ever greater abundance but without increasing its gold reserves. A flood of American currency was created to finance the Korean war, and by the mid-sixties it was becoming apparent that the dollar had become seriously depreciated in purchasing power, and its gold backing perhaps a half of what it should have been. When Charles de Gaulle took the obvious step of redeeming the French government's dollars for gold before they lost more value, he started a run which threatened to empty the gold vault in Fort Knox, and in response President Richard Nixon unilaterally "closed the gold window" in 1971. That is to say, he ended the convertibility of the dollar to gold on request. What then happened was quite unexpected. Without the gold-backed dollar as a benchmark on which to judge the value of any national currency, all were left to float and find a value in relation to what others were willing to pay for them. The dollar, however, continued to be used as a global currency just as if nothing had changed, even though it was now backed by nothing but "full faith and credit" in an administration that had just proved itself unworthy of such faith. The financial world now had to trust that America would not further depreciate the dollar by printing more now that the restraint imposed by the gold standard had been totally removed. On the face of things, that would be as foolish as trusting the promise of an alcoholic with a bottle of whiskey in his hand. There was no reason at the time, however, not to trust, for the dollar was backed, if not by gold, by the American economy, which strode the world like a Colossus, but in the intervening thirty years the world has become cruelly disillusioned in the "full faith and credit" of the American government. Despite the fact that America continued to print dollars, inflation was held reasonably in check, with one exceptional interlude, because everyone still wanted them for the normal business of global exchange, and particularly to buy oil. At its simplest, the world's nations were prepared to pay a hundred cents of value in their own currency for a paper dollar which had cost only a cent to print.

The pricing oil in dollars is a fundamental factor in giving global political power to the United States. The connection between oil and global political power is becoming increasingly obvious, but the way in which an inflatable dollar has been used to obtain that power is not widely known. It may be indicated by a single historical event, a treaty made between the governments of America and the Saudi Arabia whereby in return for the military protection of America, the Saudi government agreed to price its oil in dollars, and in so doing it handed over global hegemony to America. Since Saudi Arabia's oil reserves at the time were by far the most bountiful and cheapest in the world, it could at a stroke regulate the price of oil by, so to speak, turning the tap on or off, producing a glut or shortage of oil and moving the price of oil down or up. Since all the world's nations would need dollars to buy oil, America could produce them without domestic inflation and exchange them for other currencies or for property, businesses or other assets abroad. More or less hidden from view at the time were religious implications that have now become very visible, for Saudi Arabia is the home to the most fundamental form of Islam, and the protection which America offered the House of Saud, with some seven thousand royal princes living high on the oil revenues and flouting Islamic custom, was in large measure against its own people.

The fact that every country in the world has had to buy dollars in order to buy oil has put America in a win-win situation. If the price of oil remained low or stable, America's huge energy costs were minimized and the savings trickled down through the economy as a whole, reducing both the cost of living and the price of exports. On the other hand, if the price of oil went up, the world was forced to buy dollars in order to pay for it, thus enriching the United States in another way. This constitutes an "invisible hand" on a global scale that Adam Smith could never have imagined. It has even been suggested by some economic commentators that when the Organisation of Petroleum Exporting Countries (OPEC) doubled the price of oil in 1978 that the initiative came from the major oil companies (almost all American), and while this may appear to be the wildest of conspiracy theories, the fact that among those who have openly said it is Sheik Yamani, the secretary of OPEC at the time, gives it credence. In any event, gargantuan amounts of dollars were brought into existence to pay for the oil price increases, and as they sought a secure and productive home, they created unprecedented distortions in the global financial system and played a great and sinister part in increasing the dollar hegemony. The individual might worry about how to invest a windfall legacy of £50,000. but where does a small nation like Saudi Arabia, Kuwait or Norway invest £500 billion? The answer to that has had profound consequences for the science and practice of economics, as will be shown below.

(c) The IMF and a New World Order

In the post World War Two period, when its industry was at its strongest and there was enormous unused industrial capacity, America pressed strongly for unrestricted global free trade. On the surface free trade can produce nothing but benefit, enabling every country to gain by exporting those goods which it can produce most efficiently. The full picture, however, shows this conclusion to be simplistic. It is, for instance, obvious that transporting beans by air freight from Kenya, potatoes from Egypt and asparagus from Chile in order to offer European supermarket customers out of season delicacies or a few pence off the local price involves enormous environmental costs. Similarly, a small country trying to build up its domestic economy by nurturing home grown industry or agriculture gains little but unemployment from allowing cheap mass produced commodities in without restriction. There are many other drawbacks to a totally free globalised trade, but these will be passed over here to reach the more important point that however idealistic the Bretton Woods Agreement may have been in conception, the global financial institutions which it created have turned out in practice to be instruments for American domination of the global economy and in many instances agents working on behalf of transnational companies.

The World Bank and IMF were set up to create a pool of finance from which any country could draw in order to in order to neutralize negative trade balances and, in so doing, stabilize the global system. To understand how this purpose has been suborned in order to support the dollar hegemony it is vital to know that the potential for abuse was built in from the beginning by the voting system. This called for an 85% majority of the directors to pass any decision, but with the United States having an 18% vote, in effect a veto which ensured that both institutions are run in America's perceived interests. As if this were not bad enough, they are run also for the benefit and profit of corporations with links to members of the US administration which are traceable through public records of directorships and investment. That President Bush's family have involvement with defence contracts through investment in the Carlyle Group is well know, as is the fact that Dick Cheney was formerly chairman of Halliburton Oil, Donald Rumsfeld was a lobbyist for Bechtel and Condoleeza Rice a director of Chevron Oil. That Halliburton and Bechtel were awarded contracts for rebuilding the shattered infrastructure of Iraq is also well known. Given that US bombers did most of the shattering after the Iraqi army had effectively capitulated, the conclusion can hardly be avoided that there were ulterior motives for this apparently meaningless destruction. The contracts to rebuild the infrastructure were given without tendering, without penalties for non-performance and without fixed cost guarantee. These few facts without further comment represent only the tip of the tip of an iceberg of connections between the US administration and commercial interests which benefit from government policy.

It is an unholy marriage, but there is a third partner in the background in the form of the International Monetary Fund. It was not always like this, and the IMF has provided genuine benefits to countries in financial need, both through monetary assistance but also by its power to impose fiscal discipline on irresponsible governments. Britain itself was a beneficiary in 1976, with short term loans that stabilized the pound and the national economy. It is, however, now becoming too obvious to overlook that the IMF's main policy for some years has been to act as a collector and enforcer for other lending banks, forcing financially weak countries to hand over public assets to commercial companies before agreeing to lend money. These companies then proceed to make what formerly were public service into profit-making companies, no longer existing the benefit of those who formerly owned them but for international shareholders. That the average person has no idea of this is probably because the operations are on such a breath-taking scale. Even when the facts are generally known, however, they are often accepted, because privatisation of public assets has become an accepted, even normal, policy of governments worldwide. The following section will show how privatisation has come about and how it is working to destroy national autonomy and weaken the political control that has traditionally been given to elected governments.

There is ample documentation available about the way in which the World Bank and IMF work to take financial decision-making out of the hands of elected governments. Their ability to do this comes from the necessity of imposing conditions on the borrowing countries, a normal procedure in any banking arrangement, but one which lent itself to abuse when the sums involved became abnormal after the oil shocks of 1973 and 1978, and oil exporting countries suddenly had to find some way of investing them profitably and securely. The answer that worked out was to lend them at very low interest rates to developing countries, which seemed at the time to the benefit both parties, for the investing countries had the security of knowing that sovereign nations do not default on debt, while such large sums with long repayment dates were exactly what was needed to create economic infrastructure lopment – the roads, railways, dams, telecoms and water services. In laying off these huge sums, the IMF changed its role from being a stabilizing fund for industrial countries to being a lead banker for consortia of international banks, and from this to active involvement in social engineering in the developing countries which mostly borrowed this newly available money. Tens and hundreds of billions of dollars were handed out to countries with no hope (or indeed expectation) that the money would be managed responsibly and with certainty that a large proportion would immediately be siphoned off by corrupt politicians and deposited in numbered Swiss bank accounts. The reason for this apparent laxity was that with the cooperation of the World Bank, the lenders knew that their collateral was safe, for it was the assets of the borrowing country. In due course new institutions were set up by the World Bank and IMF to handle this policy shift, the most significant being the HIPC, the Initiative for Highly Indebted Poor Countries. Since the driver of policy is the International Monetary fund, working hand in hand with the World Bank, it will suffice to outline the part that the IMF played. The other beneficiaries in what has turned out to be literally a global scam were the big transnational companies which effectively act as fences to receive the national assets of bankrupt countries seized by the IMF as collateral for their defaulted borrowings. Although the process of default and seizure of assets is on a global scale, it is no different in principle from the process by which a bank may offer a mortgage on extortionate terms to a dubious borrower in knowledge that it when the borrower fails to repay the loan, the bank will have the full support of the law in repossessing the house.

Joseph Stiglitz, a former director of the World Bank wrote an expose of its nefarious activities in *Globalization and its Discontents*,[2] but considers much of the damage they have done as accidental side-effects of well-intentioned objectives. By contrast, other well qualified commentators see a pattern of operations that can only be interpreted as deliberate policy. Among them are William Engdahl, "How the IMF Props up the Bankrupt Dollar System" [3] and Russell Mokhiber and Robert Weissman, *IMF and World Bank: Out of Control* [4] The degree to which the IMF now works as an arm of America and large companies close to the American administration can only be judged by looking impartially at the facts and deciding who benefits. Although this brief account is necessarily selective and black and white, it has to be said that it is not always easy to distinguish between dedicated public servants and robber barons in what followed from the IMF's intervention in national politics. While the former acted from the best of motives to impose a so-called "free market" agenda on the borrowing countries, the latter, mostly executives of global companies, saw the chance for easy pickings on a large scale. Somewhere in the shadows were the executives of the large investment banks which worked, and still work, in cooperation with American financial policy.

Default on the loans made or brokered by the IMF was by no means inevitable, but was brought about by a sequence of global financial events which must be noted. After President Nixon had decoupled the dollar from gold, the American government used this new found freedom to issue enormous amounts of dollars and treasury bonds, inevitably leading to domestic inflation, and the then Chairman of the Fed, Paul Volcker, took the classical way of "squeezing inflation out of the system" by raising the Fed's borrowing rate. At one point it reached over twenty per cent, a "cold turkey" cure that effectively cut off all credit to business, and plunged America and the rest of the world into temporary recession. It had the desired effect of bringing inflation down to a manageable two per cent, but its effect on the "heavily indebted nations" (an official new category in economic theory) was devastating. Since all loans had been made on condition that the US Federal Reserve rate would apply, many nations found it impossible to service loans which had been taken out at 3% and were now generating interest at six or seven times that rate. These were now effectively mortgaged to the global banks which had lent the money in the first place, and the IMF stepped in to fulfil its primary function and help them to handle mortgage repayments.

The price exacted by the IMF for bailing out these countries in financial distress was referred to as conditionalities, sometimes euphemistically called "the IMF medicine". The IMF demands were on the face of things no more than a reasonable requirement for the borrowing countries to practice economic good housekeeping, cutting back on waste and public spending and raising capital by selling off state assets. Under the surface, however, these demands were so structured as to give far-reaching benefits to America and to a quasi-cartel of transnational companies working closely with the American government. The IMF was able to demand, for instance, not only the privatization of public services but their sale to selected TNC's. As one example, Argentina was forced to sell the Buenos Aires water system at a knock down price to Enron. It is not likely that the friendship between President Bush and Enron's chief executive, the late Ken Lay was incidental to this deal. The IMF also called for the now economically helpless nations to devalue their national currencies against the dollar, often by 60% or 70%, thus both strengthening the dollar and making its imports cheaper. Regardless of the socially destructive effects and the human consequences, IMF conditionalities invariably include slashing expenditure on education and health.

It may be asked why any country would allow itself to be controlled in this way, and why it did not turn to other banks. The answer is simply that the other banks had agreed with the IMF not to help with emergency loans until a Memorandum of Understanding had been signed in which the IMF's conditionalities had been accepted. Without the seal of approval of the IMF no loan money was available at this level of international banking. This collusion is never discussed, but is a kind of banking *homerta*. Once the IMF has wrested economic control from the supplicant country, the effect is to open it to international speculators. In the case of the most vulnerable or those with corrupt governments, this can result in a frenzy of looting of publicly owned assets. Perhaps the worst, and certainly the most visible, example of this occurred in Russia, when President Yeltsin of Russia sought financial help from the World Bank to support his post-Communist reform administration. Help was offered, but only on condition that he broke up all the state assets and sell them for pennies in the pound. The ordinary Russian citizen was allocated shares in some of them, but the plums went to a handful of sharp businessmen, who became billionaires almost overnight and whose support Yeltsin had effectively bought, much as Henry VIII had once bought allegiance by selling off at a knockdown price the monastic lands he had seized. With this as background, one can find some understanding for the state gangsterism that his successor, President Putin, has employed to wrest back the ill gotten gains of the Yukos oil giant and other former assets of the state.

What the IMF innocuously calls "structural adjustment" includes labour market deregulation, in general reducing the power of employees by weakening their unions and strengthening the power of the employers. This trend is reinforced by the World Trade Organisation, which acts to bring down trade barriers, sometimes beneficially, sometimes blatantly to the advantage of the United States and of giant global companies which seek to demolish all trade barriers regardless of local needs or benefits. The only real restraint on the World Bank is the American Congress, which prevents it from becoming an empire on its own and an arm of international big business. The watchfulness of an active group within Congress has often resulted in resolutions being passed instructing the US representatives to the World Bank and IMF to vote against measures that would go against public health or education in developing countries. We are dealing here with global issues of such size that the ordinary person finds difficulty in understanding their workings or significance and tends to assume that all dealings at this international level are non-partisan and above board.

One example must suffice to show how the World Bank and IMF are cooperating to hand over control of the global economy to giant transnational companies. In 1992 the World Bank issued a paper entitled *Improving Water Resources Management*, in which it argued that "the poor need to be provided with a wider range of options so that they can choose the level of water services for which they are willing to pay, thereby giving supplies a financial stake in meeting the needs of the poor." The weasel wording of giving choice to the willing poor concealed the reality which is, as the human rights campaigner Vandana Shiva says, the "conversion of water into a tradable commodity rather than a life support base". It was also a tacit rejection of the principle that the state had a responsibility to provide water as a means of life to its poorest citizens. From the example given below it can clearly be seen that the IMF's policy sets in train a process unprecedented in the history of the human group. Where it has dealt with financially weakened countries, it has enabled a new breed of giant commercial organizations to take over the resources of the national community and dictate social policy with the sole purpose of increasing the profits of the companies involved.

This is nothing less than an evolutionary step-change, leading, as it does, to a world run solely for profit, with all the consequence for individual human beings that will follow. It is vitally important for the future of humankind to be aware that this process is happening, and to change its course. Those who believe that humankind has a higher destiny must come out clearly in favour of a not-for-profit world. The choice is not at present clear-cut and, as Keynes and Schumacher foresaw, the wider frame of commerce must be based on profit for the foreseeable future. Ultimately, however, humankind will be faced with the kind of decision that our forebears faced only a couple centuries ago in relation to slavery: when all the qualifications and necessary compromises are made, the individual will have to decide whether he or she could live with themselves in an economic system based on slaver. The forthcoming decision is whether we can be fully human while accepting that the kind of human intercourse we call trade must be aimed at maximizing individual and corporate profit.

The practical effects of the World Bank's policy statement quoted above was to start a scramble of gold rush intensity between TNC's for the new gold of clean water. The rush was truly international, including the French corporate giants, Vivendi, a media and communications company, and Suez-Lyonnise des Eaux, various once British water boards, like Thames Water, drinks manufacturers like Seagram and Coca Cola and civil engineering companies like Bechtel, already mentioned for sharing in the spoils of the Iraq war. The case of Bechtel in Bolivia exemplifies global capitalism at its worst. In 1999, on the recommendation of the World Bank, a subsidiary of Bechtel was given the monopoly rights to the municipal water supply of Cochambamba, a small city in a semi-desert environment. Almost immediately water costs doubled to $20 a month, in a city where the average wage is less than $150 and many struggle to survive on half that sum. The extra cost of water had to be taken from other basic needs, like food and clothing, and as the water was cut off from those who faced a choice of starvation or water, civil action started spontaneously. The response of the police to peaceful demonstrations was violent repression, sometimes with live ammunition, but the resolve of the protesters won the day and in the end the municipal water supply was returned to public ownership and Bechtel withdrew. This brief account is a parable for our times.

The Joint Stock Company: A Profit-making Community

The trading group has played a critical role in creating civilization, but the appearance in history of the joint stock company marked a new development, which has since mutated in several ways. The three latest forms are the transnational, the hedge fund and the so-called virtual company, all of which can trace their historical origin to an informal arrangement between traders and monied investors to share the risk and profit of overseas ventures. An early association of such groups, the Merchant Venturers of Bristol was incorporated in 1552 and survives to this day as a kind of shadowy freemasonry, powerful enough financially to have founded Bristol University. Later associations, such as the Dutch East India Company (1602) and the Hudson Bay Company (1670) were set up by government charter and given a monopoly of trade in the designated areas. Fascinating as is their history and connection with government colonial policy, their significance in the present context lies in the fact that shares in them came to be traded in markets in Amsterdam and London, and these stock markets, originating in coffee shops, are now the engine room of global trade today.

The most critical mutations to the joint stock company came in the nineteenth century with the concept of limited liability and of the company as a legal entity separate from its members, a *persona ficta*. The first change enabled the company to take on larger ventures and greater risks, and changed the traditional balance between risk and return. The second meant in practice that the ethical obligations of the company were separated from those of its directors and shareholders. The company's moral responsibility was to maximize profit for its shareholders, and this principle takes precedent over almost everything else. If more profit can be made by polluting the atmosphere or making the employees work for lower wages or in unhealthy conditions, the directors are caught in a moral dilemma, and experience shows repeatedly that the profit principle invariably takes precedence. The limited company, as Mussolini once remarked, is a body without a soul, and its one moral principle is "Business is business." These precedents were not established without many legal objections being overcome, and after lengthy debate in Parliament and Congress, for liability for one's debts and a duty of care to one's employees are not principles to give up lightly. Yet the objections were overcome because the potential of the Industrial Revolution was in many instances too great to be handled by individual enterprise, particularly as regards railways, canals, shipping and mass produced goods in general.

Thus came into existence a new kind of human group which soon generated a host of social questions that in time became codified in company law. The different names which the joint stock company was given in different countries indicate some of its characteristics – *Société Anonyme* in French, *Aktiengesellschaft* (Share Association) in German, *Limited Liability Company* in England, and in America simply *Incorporated Company.* While the joint stock company is not strictly anonymous, the names of its members and directors are not revealed by the company's name, and thus individual responsibility is blurred and often hidden. One will say that Acme International Plc has discharged toxic waste into some watercourse, not that John Smith, the managing director gave orders for it, and if a fine should be levied, it is the company (i.e., ultimately the shareholders) who ultimately pay, not the person ultimately responsible. The latest developments in the joint stock company demonstrate the final decoupling of business from morality, as the pursuit of profit becomes ever more single-minded, and ultimately the decoupling of the company from manufacturing and from trade itself.

i. The Transnational

The giant transnational company, owing allegiance to no country nor subscribing to any moral code, has not only become totally impersonal (as Schumacher complained) but detached even from its aim of making money for shareholders. Its main purpose has become tacitly, making money for its directors, who are typically paid in millions and tens of millions per year, whether or not the company is making profit. It would not be untrue to say that most big companies are now run for the benefit of their directors. A chief executive who has lost billions for his company, far from being penalised, is invariably paid off with a large "golden handshake" and then hired by some other company, despite his or her failure. There is an identifiable class of perhaps two thousand directors who sit on the boards of each others' companies as non-executives and set salary levels on a "scratch my back" basis. Further, there has developed a corrupt symbiosis between political parties and big business, with ministers doing favours while in office, and handing out contracts, in expectation of finding lucrative appointments later. This so-called "crony capitalism" is increasingly tolerated, and in some countries like Japan taken as quite normal, and is predictable because of the connection between money and political power. What is perhaps less obvious is that a company which is set up purely for profit must start in moral ambiguity and thus is almost certain to end in corruption. So taken for granted is profit as the sole and sufficient reason for business activity that most people would probably respond by asking what else except profit can a company be set up for, and the outlines of an answer to this question will be given below.

The drive for profit not only corrupts society but is a silent war against the interests of citizens who seek something higher in life than material acquisitions. The corporation sees every human activity and need through the lens of profit and reduces it to profit. In one sense this is the necessary engine that drives the innovation of the entrepreneur, but there is a much more sinister side. As an example, it was not long before a growing demand for organic food was seized upon by big business, which immediately set itself to making use of the label "organic" while stripping out as far as possible any costs incurred by organic practice, for profit always comes before human welfare or business integrity. As usual, America leads the way, and long distance trucking, with its environmental consequences, is just one aspect of how organic farming has gone from being a local and community-minded enterprise to being absorbed into the agribusiness. The New York Times (13/5/1) in a feature article about developments in organic farming reported that a half of the organic production of California is controlled by five giant farms, which keep within the letter of the law but often grow their organic vegetables next to fields which are sprayed with pesticides or contain genetically modified plants. Things have certainly got worse since then, and as small organic farmers are bought up by bigger interests, a hierarchy of companies develops in which everything that the word “organic” stands for is diminished. Milk is “ultrapasteurized” in the interest of increasing shelf life, destroying valuable enzymes and vitamins, and cows tethered all day in grass-free compounds and sheds are fed organically certified grain to enable their milk to be legally certified as organic. The foods which are compromised in this way are produced by agricultural giants, owned by even larger holding companies whose shareholders are, in turn, companies with no slightest interest in healthy food for its own sake. At the top of the organic food chain one will find multinationals like Dean Foods with a shareholder list that includes even bigger companies, like Microsoft, Exxon-Mobil, Coca Cola and Philip Morris, the tobacco company. The interest that these have in healthy living may confidently be taken as zero. The same article on the corruption of the organic farming movement notes how strawberries grown under doubtfully organic conditions and trucked across the continent use over 400 calories of fossil fuel for every 5 calories of nourishment.

ii. The Virtual Company

The virtual company is a natural development of the conglomerate and the holding company, which exist not to manufacture or distribute goods but to buy and sell companies and hold them until the time is most favourable for disposal. It is not strictly a defined category but an ideal, almost Platonic, corporate form in which profit-making has become so narrowly the aim of the company, that all practical activity in trading and manufacturing is seen as a deflection of management energy. Effective business management in this context is reduced to the use of information, of market movements and legal expertise, and success is measured in the degree to which physical work of any kind is contracted out to other companies. In the ultimate stage, nothing is done in-house except the paperwork required to arrange these contracts. Thus an airline will tend to lease its planes, buy in its maintenance engineering and catering needs, hire pilots and staff on a self-employed basis, set up or share an independent ticketing service and so-on. In the ideal situation, the “airline” company needs nothing more than an office, and its function becomes simply taking in revenue from the ticketing company and paying out bills to its subcontractors. Any problem or requirement is solved by a phone call or a meeting between company directors and lawyers. In principle there is nothing wrong with such an arrangement, but in practice it is clear that the contractual and legal structure on which all depends becomes not only impersonal but depersonalising. If a subcontractor has to fire a thousand employees or cut their wages, that is of no concern whatever of the virtual company. The holding company and conglomerate may be seen as variants of the virtual company, trading other companies, rather than goods or services.

iii. The Hedge Fund

In some ways the hedge fund is the most revolutionary mutation of the joint stock company. It can be seen as a pathological development of the insurance company, and is an extension of the practice of farmers, to contract to sell a future crop at an agreed price in order to hedge against price fluctuations in the market, thus sharing their risk and profit with the buyer. Hedge funds today are not only the purest form of virtual companies, owning nothing but contracts, but their business is gambling on a huge scale, a scale indeed so vast that they can move the market in their favour. Thus it was when George Soros gambled on the pound sterling losing value. The very fact of his hedge fund's massive intervention made it lose value. There is nothing intrinsically wrong in financial speculation, for all investment is betting that events will move in one's favour, that the profits of Marks and Spencers or Boots, for instance, will increase the value of one's shares. But betting is not trading, for trading benefits both participants, whereas gambling enriches one at the expense of the other. More importantly, a gambling economy adds nothing to the wellbeing of society and indeed saps it, for it is an inducement to gain wealth without work. There is no moral issue involved in a flutter on the 3:15 at Ascot, but loading the dice, as, for instance, George Soros did, certainly brings ethics into the picture. That said, it may not be his ethics which are brought under scrutiny, but those of a global economic system which leaves itself open to manipulation in this way and the impoverishment of citizens for the benefit of smart or well-connected individuals. Hedge funds make money by spotting anomalies in the market, thus, for instance, borrowing money at low rates from Japanese banks and investing the loan in American Treasury bonds at a higher rate, taking the risk that the value of the yen will not fall significantly against the dollar. That risk would be legitimate factor, were it not for the fact that the bet is made with money that is huge in amount and largely borrowed. A hedge fund may typically borrow ninety per cent of the money it needs to purchase, say, US treasury bonds. Thus if is later able to resell those bonds in the market at a higher price, it will have multiplied the profit on its own investment by roughly ten times, since it is using other people's money. This kind of leverage has helped hedge funds in the past to return annual dividends to their investors of thirty, even forty, per cent. But leverage works both ways, and when losses occur they eat savagely into investors' funds. Hedge funds add an extreme but incalculable degree of instability to the global financial structure because they deal with enormous sums of borrowed money which is gambled on complex contracts. These derivatives are usually outside the control of any financial authority and may concern nothing more tangible than guessing what degree of probability there may be that the options to buy a company's shares will prove profitable. Derivatives are often in effect bets about bets, and the size of the market in them is mind-boggling, in 2005 over two hundred trillion dollars, a figure which dwarfs the world economy. Insofar as most of these bets are made with money borrowed from the banks, a wrong guess will put the banks as much at risk as the hedge funds, but the hedge fund directors not at all, for they operate under the law of limited liability. When there is a systemic bank failure, economic science and practice fail.

In 1998 there occurred a wrong guess of such magnitude that it put the whole global economic system at risk, when the biggest and most prestigious of hedge funds, Long Term Capital Management (LTCM) became insolvent to the tune of billions of dollars, after betting wrongly on the future price of Russian bonds. LTCM was the cream of the cream: it had two Nobel Prize winners on its board and counted the central banks of China and Italy among its client investors, and it merits attention in the context of paradigm change for two reasons. Firstly, it was saved from bankruptcy by the intervention of the Federal Reserve, which on a moment's notice brought together major banks and in effect ordered them to lend more money to LTCM in order to prevent the bankruptcy happening. This in itself was a historical event, marking the end of any pretence about the ideal of free market capitalism. State intervention in this instance, not to mention others, was as direct and rapid as in any socialist economy. One wit later remarked that America had become a welfare state for needy companies, but the reality was, in fact, far worse, for many companies in rude financial health have received largesse from the American and other governments. This opens up a whole new window into the relation between political democracy and monopoly capitalism, but only one will be mentioned here, because it bears directly on the debauching of money, which is at the heart of the collapse of the current paradigm. That instance concerns the way in which the American government, with the cooperation of other central banks, has kept the value of the dollar artificially high by depressing the price of gold. By systematically unloading their reserves of gold onto the world market, these banks have ensured that for many years there has been an oversupply. The best publicized of these sales, and the most notorious, was Gordon Brown's disposal of Britain's gold stocks in 2002, at a rock bottom price of $250 per ounce, which may be compared with its price of $720 at the time of writing. To be fair to Brown and other central bankers, this seemed like the best strategy at the time to prevent the collapse of the dollar and thus of the whole global financial system. In one sense, it was the only possible strategy, for no one then or now has any idea of what alternative could replace the dollar-based global system that was unanimously adopted at Bretton Woods. One thing is certain, the utmost effort will be put into preserving the status quo by those who are in charge of it and who benefit from it.

The second aspect of paradigm change related to the hedge fund phenomenon is the astonishing rapidity of their emergence and the complexity of the financial gambling that is their sole function and reason for existence. That this gambling is mostly done with borrowed money guarantees that another LTCM event will bring down the whole world economy, and this time no government intervention will be able to save the system by refinancing bankrupt hedge funds. This will become clearer in a later section, "Putting in the Numbers", but all that needs to be noted here is that the borrowings are so great and so complex that non-payment of only a few big ones will bring down the banking system itself with "cascading cross defaults." The phrase is borrowed from Alan Greenspan, ironically the single individual who has done most to make sure that it will eventually happen. In total the hedge funds' derivatives "book" adds up to the astonishing figure of $232 trillion dollars (IMF figures). It is impossible to determine how much of this is at risk through unforeseen political events, or even meteorological events such as hurricanes or drought, but if even a tenth of this sum were to be defaulted, the world banking system would collapse almost overnight, and the dysfunctionality of the current economic paradigm will be revealed.

Privatisation: Capitalism Versus Democracy

In an astonishingly short time the general public has come to accept as a norm the state sell-off of public assets which we know as privatisation. Before the Thatcher government introduced the term in 1982, it was unknown, but what was to follow is a textbook example of the history of unintended consequences. It started innocuously with the sale of a small biochemical company Amersham which had somehow been inherited by the Atomic Energy Commission, and its privatization was little more than a tidying up of the Commission's accounts. Having disposed of it by a public sale of shares, the government of the day became aware of wider possibilities, and with all deliberate haste moved to repeat the operation on an increasing scale, overcoming public resistance by offering shares in the national telephone network, the water boards and railways at a knock-down price. In effect, the public were bribed with their own money to buy assets they already owned, and the whole process was encouraged by pension and insurance companies who were eager to have these reliable big utilities in their portfolios. Objections from those whose job satisfaction came from serving the public were overcome by "stuffing their mouths with gold," a phrase used by Aneurin Bevan to describe how he had overcome doctors' initial resistance to the National Health Service. The directors of Thames Water Board opposed privatisation in 1988 but were unanimously in favour in 1989 after it had been pointed that salaries would be tripled.

Privatisation seemed, indeed, like an all-round winning formula, offering a whole array of benefits to the political party in power from a succession of windfalls to the public purse. By this magical stroke, the cost to the taxpayer of the railway system, waste collection or prison services could be removed and transformed into profits for those who had bought shares. Within the space of some fifteen years, the privatization phenomenon became unstoppable and swept the world, establishing in the process a new kind of socio-economic norm. As nationalisation was the identifying word for socialism, privatisation rapidly became the identifying word for capitalism. It was as if it gave focus to a crusade which Margaret Thatcher described as "eroding the corrosive and corrupting effects of socialism." This brief explanation is background to understanding why governments across the world seized upon privatisation as an all purpose political solution and a new norm, and why there has been so little resistance to the International Monetary Fund's relentless use of its financial power to push forward privatisation as an integral part of its lending programme. The IMF's conditionalities have been imposed little by little and mostly in faraway countries, so that there is little public awareness of the agenda of the World Bank that is helping change the global political power structure. Privatisation has become central to the IMF's lending strategy, and whether by deliberate intent or accidentally, this has had the effect of diminishing the financial power of elected governments and increasing the political power of transnational companies. In this way the concept of the autonomous nation state is being eroded, and for all practical purposes government "by the people, of the people and for the people" is becoming an increasingly hollow phrase. It is no longer possible for the people of the country to own the services, transport and utilities which they need as a community and thus their sense of community is diminished, and made even worse because they are no longer working for each other in these areas but as paid employees for a corporation which has no interest in them as human being, but only as "profit centres." In this way a dreadful travesty of globalisation is happening: so far from humankind coming together in a global village of mutual understanding and cooperation, small and large scale communities are being dissolved and replaced with global macrostructures characterised by impersonality, ruthless competition and deception in the cause of corporate greed.

The Great Chinese Experiment

The integration of China into the global trade system is having a dramatic effect on the economies of every country in the world, and nowhere more than on the United States. From bicycles to televisions, from flat pack furniture to T-shirts, and soon to include automobiles, all countries have been flooded with Chinese goods. It is hardly possible today to buy electronic or other goods that are not manufactured in China, our houses and offices are full of them. This has increased the immediate sense of prosperity of the consumer, but is hollowing out the manufacturing industry of the developed world, which conventionally has been the source of national prosperity. Although this process of industrial domination has a long way yet to run, countries worldwide are already competing for the industrial scraps left over by China. This is globalization with a vengeance. Its effects on national employment, and thus on national wealth, have until now been largely concealed by creating non-productive work in the public sector, and by absorbing the unemployed into the welfare statistics low paid work in what is euphemistically called the service industry, as though it were some branch of industry in the usual sense. (Not long ago a collective of prostitutes was in the news seeking tax relief on their premises on the ground that they were a necessary cost in the "sex industry.") Two straws in the economic wind are the inability of many households to survive without both parents bringing in a wage, and the increase in "McJobs". The word has already entered the the Oxford English Dictionary, where it is defined as "an unstimulating, low-paid job with few prospects, esp. one created by the expansion of the service sector."

The economic instability now building up through the imbalance of trade with China and other low cost manufacturing countries is partly concealed by a decrease in inflation as the price of many goods in the shops has fallen quite dramatically. However, the end result of this trend can only be that countries which once had a flourishing manufacturing sector will have nothing to offer China in exchange, other than raw materials, energy, grain and other food products. As this comes to pass, a new era of colonialism will be born, but the future is too uncertain to make firm prediction. Orthodox economic theory would predict that wage rates worldwide will slowly come down to meet the Chinese, or alternatively that Chinese wages will rise to find a point of balance with Western rates, but when one considers that the average Chinese weekly wage is probably about one twentieth that in the developed world, and that there is still a quarter billion virtually unemployed Chinese, the inadequacies of orthodox economic theory start to show up. Richard Duncan, in *The Demise of the Dollar*, cited above, has suggested that a global minimum wage is the only answer, but admits that there is no political machinery to bring it about. Even if it were feasible, it would not address the deeper problem, namely that there are systemic faults in conventional economic theory traceable ultimately to the unquestioned assumption that economic activity is always and everywhere directed towards profit-making. The economic challenge now facing us to probably too great for most people to take in: it is nothing less than a re-laying of the theoretical foundations and construction from micro- to macro-scale of social units which exist for the well-being of their members, not to increase the wealth of nations or the profits of corporations or the salaries of their directors.